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Housing Starts Plunge 14%, Marking Lowest Level Since 1991

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WASHINGTON -- Home construction plunged in December, tumbling to its lowest point in 16 years, while a sign of future groundbreakings also dropped sharply.

Housing starts decreased 14% to a seasonally adjusted 1.006 million annual rate, after falling 7.9% in November to 1.173 million, the Commerce Department said Thursday. Originally, Commerce reported November starts 3.7% lower at 1.187 million.

The big decline surprised Wall Street. The median forecast of economists surveyed by Dow Jones Newswires was a 5.0% drop to a 1.130 million annual rate. The level of 1.006 million was the lowest since 996,000 in May 1991.

Year over year, housing starts during December were 38.2% below the level of construction in December 2006.

The level of starts for all of 2007, in numbers not seasonally adjusted, was 1.354 million, 24.8% below 2006's 1.801 million. The annual drop was the largest since a 26.0% fall in 1980.

Builders have been pulling back because sales for new homes have plunged while the supply of unsold homes hovers high. The latest government report on new-home sales in the U.S., covering November, showed a 9.0% decline to an annual rate of 647,000, down 34.4% from November 2006.

Illustrating how low builders feel, an industry gauge, the National Association of Home Builders' Housing Market Index, sits in a narrow range of pessimism. The index measures the confidence of builders. On Wednesday, the NAHB released the January index; it rose to 19, up just a point from a historic low 18 in December.

"The magnitude of the housing bubble was unprecedented, and the corrective process promises to be a long and painful one," MFR Inc. chief U.S. economist Joshua Shapiro said in reaction to the NAHB report. "Hence, it is hardly surprising that builder sentiment remains as low as it has ever been."

A key indicator in Thursday's data suggested an even lower level of groundbreakings in the future. Building permits decreased 8.1% to a 1.068 million annual rate in December. Economists had expected permits to drop 2.6% to a rate of 1.130 million. November permits fell 0.7% to 1.162 million.

December single-family housing starts decreased 2.9% to 794,000. Construction of housing with two or more units fell 40.3% to 212,000; within that category, groundbreakings of homes with five or more units -- or multi-family -- were 41.1% lower.

Regionally, housing starts fell by 19.6% in the West, 30.8% in the Midwest, 25.8% in the Northeast, and 3.3% in the South.

Nationwide, an estimated 68,800 houses were actually started in December, based on figures not seasonally adjusted. An estimated 73,700 building permits were issued last month, also based on unadjusted figures.

Jobless Claims Decline

The number of U.S. workers filing new claims for unemployment benefits last week unexpectedly fell to its lowest level in nearly four months, an encouraging sign amid growing concerns that the economy is falling into a recession.

Initial claims for jobless benefits fell 21,000 to 301,000 after seasonal adjustments in the week ended Jan. 12, the Labor Department said Thursday. That marked the third straight weekly decline, bringing claims down to their lowest level since the week of Sept. 22, 2007. Wall Street economists had expected an increase of 18,000 from the previous week. There were no special factors, a Labor Department analyst said.

The four-week average of new claims, which economists use to smooth out weekly volatility, also decreased 11,750 to 328,500. The four-week average has been declining since reaching its highest level in over two years in mid-December. Claims for the week ending Jan. 5 were unrevised at 322,000.

Recent signs of a softening jobs market, which had been one of the last pillars of support for the U.S. economy, have fueled fears of a recession. An unexpected jump in the unemployment rate in December, to 5% from 4.7%, initially triggered speculation that the Federal Reserve would conduct an inter-meeting rate cut. The Fed is still widely expected to aggressively lower benchmark fed funds rate by a half percentage point when it meets at the end of the month.

Last week, Fed Chairman Ben Bernanke said policy makers are ready to make "substantive" rate cuts if necessary, citing the "disappointing" December jobs report as one sign of downside risks to the economy.

According to the Labor Department report Thursday, the number of workers drawing unemployment benefits for more than one week rebounded 66,000 to 2,751,000 in the week ended Jan. 5, reversing a drop the previous week.

The four-week average of those continuing claims rose for the 12th straight week to its highest level since November 2005, indicating that it is taking longer for unemployed people to find work.

The unemployment rate for workers with unemployment insurance edged up to 2.1% in the Jan. 5 week from 2.0% the prior week.

There were 25 states and territories reporting an increase in initial jobless claims for the Jan. 5 week, while 28 reported a decrease.

On an unadjusted basis, New York reported the biggest increase in new claims the week of Jan. 5, 30,314, due to layoffs in the construction, service and transportation industries. Michigan reported the sharpest decrease, 22,130, due to fewer layoffs in the auto industry.